

Message Text

CONFIDENTIAL

PAGE 01 PARIS 06063 01 OF 02 101650Z

51

ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SAJ-01 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 H-02 PA-01 PRS-01 USIA-06 /090 W

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R 101637Z MAR 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7402

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 PARIS 06063

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EAL, EFIN, FR

SUBJECT: BANK OF FRANCE OFFICIAL ON EXCHANGE MARKETS

1. ON MARCH 7 WE ASKED MARCEL THERON, DEPUTY GOVERNOR OF BANK OF FRANCE (EXTERNAL AFFAIRS), FOR HIS ASSESSMENT OF CURRENT AND PROSPECTIVE SITUATION ON EXCHANGE MARKETS. THERON SAID UNDER SECRETARY BENNETT'S STATEMENTS TO WP-3 ON MARCH 5 HAD ENCOURAGED FRENCH REPRESENTATIVES TO FEEL THAT DOLLAR RATE AGAINST EUROPEAN CURRENCIES SHOULD BE STABILIZING AND PERHAPS EVEN RECOVERING IN PERIOD AHEAD. HOWEVER, HE HAD RETURNED TO HIS OFFICE AT END OF DAY TO LEARN THAT
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PAGE 02 PARIS 06063 01 OF 02 101650Z

MORGAN GUARANTY HAD CUT ITS PRIME RATE TO UNDER 8

PERCENT. THIS DEVELOPMENT, OF COURSE, WENT COUNTER TO HOPED FOR NARROWING OF INTEREST RATE DIFFERENTIALS, WHICH HAVE BEEN MAJOR CAUSE OF RECENT EXCHANGE RATE EVOLUTION.

2. BY WAY OF REJOINDER WE COMMENTED THAT EASIER MONEY CONDITIONS IN U.S. SEEMED BOTH APPROPRIATE AND INEVITABLE, GIVEN U.S. ECONOMIC SITUATION AND OUTLOOK. WE SUGGESTED THAT WITH INCREASING SLACK IN FRENCH ECONOMY, TIME SEEMED AT HAND FOR GREATER LOOSENING OF FRENCH MONETARY POLICY. THIS WOULD ALSO REDUCE LARGE EXISTING GAP BETWEEN U.S. AND FRENCH INTEREST RATE LEVELS. THERON REPLIED THAT WATCHWORD FROM FRENCH GOVERNMENT CONTINUED TO BE TO GIVE PRIORITY TO EFFORT TO CONTROL INFLATION AND THUS TO KEEP THE LID ON MONETARY POLICY. CONSEQUENTLY, AS HE HAD TOLD WP-3, FRANCE WAS FOLLOWING GENERAL EVOLUTION TOWARDS EASIER MONEY "IN SMALL STEPS AND WITH REGRET."

3. THERON SAID MAJOR OBJECTIVE OF FRENCH EXCHANGE RATE POLICY WAS TO KEEP FRANC IN STABLE RELATIONSHIP WITH DEUTSCHEMARK AND OTHER "SNAKE" CURRENCIES. CONSEQUENTLY, WHEN THESE CURRENCIES TENDED TO APPRECIATE AGAINST DOLLAR, FRENCH LET FRANC RISE AS WELL. LIKewise, WHEN BUNDESBANK AND OTHERS INTERVENED TO TAKE IN DOLLARS, BANK OF FRANCE INTERVENED IN SAME SENSE TO EXTENT NECESSARY TO HOLD FRANC-SNAKE RATES STEADY, EVEN THOUGH THEY HAD NO DESIRE TO TAKE IN (ENGRANGER) LARGE AMOUNTS OF DOLLARS.

4. WE ASKED WHY, IF THIS WERE THE CASE, FRENCH AUTHORITIES CONTINUED TO ENCOURAGE EXTERNAL BORROWINGS IN DOLLARS BY NATIONALIZED ENTERPRISES AND OTHER FRENCH COMPANIES, SINCE THESE OPERATIONS SIMPLY SWELLED CAPITAL INFLOWS. THERON SAID POLICY OF GUIDE BORROWINGS WAS ROOTED IN FACT THAT FRANCE WOULD RUN

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PAGE 01 PARIS 06063 02 OF 02 101649Z

51

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R 101637Z MAR 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7403

INFO AMEMBASSY BONN

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C O N F I D E N T I A L SECTION 02 OF 02 PARIS 06063

PASS TREASURY AND FEDERAL RESERVES

CURRENT ACCOUNT DEFICIT IN 1975 NOW ESTIMATED AT SOME 20 BILLION FRANCS. WHILE THIS DEFICIT MIGHT OF COURSE BE COVERED IN PART THROUGH SPONTANEOUS INFLOWS OF SHORT-TERM CAPITAL (AS HAD BEEN CASE IN 1974), FRENCH AUTHORITIES COULD NOT BASE THEIR FINANCING PLANS ON SUCH AN EVENTUALITY. IN THIS REGARD, THERON CONFIRMED THAT THE \$1.5 BILLION LINE OF CREDIT ARRANGED BY FRENCH TREASURY EARLY LAST SPRING STILL REMAINED UNDRAWN AND AVAILABLE TO HELP FINANCE 1975 DEFICIT.

5. THROUGHOUT CONVERSATION THERON MADE ABUNDANTLY CLEAR HIS DISLIKE OF FLOATING RATES, WHICH HE DESCRIBED AT ONE POINT AS "INVENTION OF THE DEVIL." IT MADE NO SENSE TO HIM, FOR EXAMPLE, THAT DOLLAR
CONFIDENTIAL

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PAGE 02 PARIS 06063 02 OF 02 101649Z

SHOULD MOVE AGAINST FRANC BY ONE PERCENT OR MORE DURING SINGLE DAY'S TRADING. HE ALSO FELT THAT STABLE RATE SYSTEM WOULD HAVE AVOIDED SITUATIONS LIKE THE PRESENT, WHERE, IN HIS JUDGMENT, DOLLAR WAS SUBSTANTIALLY UNDERVALUED IN TERMS OF SEVERAL EUROPEAN CURRENCIES. HE SAID HE PERSONALLY HAD BEEN EQUALLY CONCERNED WHEN DOLLAR HAD FLOATED UP LAST YEAR TO LEVELS THAT WERE CLEARLY TOO HIGH. HOWEVER, HE RECOGNIZED THAT THIS PREVIOUS SITUATION HAD PROVOKED VIRTUALLY NO REACTION IN FRENCH BUSINESS AND FINANCIAL CIRCLES, COMPARED TO THEIR GREAT CONCERN

ABOUT CURRENT EVOLUTION IN OPPOSITE SENSE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PERSONAL OPINION, DOLLAR, FOREIGN EXCHANGE, CURRENCY STABILITY
Control Number: n/a
Copy: SINGLE
Draft Date: 10 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975PARIS06063
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750083-0606
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750366/aaaachok.tel
Line Count: 171
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2003 by ShawDG>; APPROVED <16 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BANK OF FRANCE OFFICIAL ON EXCHANGE MARKETS
TAGS: EALR, EFIN, FR, BANK OF FRANCE, (THERON, MARCEL)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006